

INTERIM FUND CREDIT NUMBER N044-IN

Interim Fund Development Credit Agreement

(Rajasthan District Primary Education Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator of the interim trust fund established with funds contributed by certain members of International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of International Development Association, as amended

Dated July 6, 1999

INTERIM FUND CREDIT NUMBER N044-IN

INTERIM FUND DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 6, 1999, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted on June 26, 1996, as amended.

WHEREAS (A) by the Interim Fund Resolution the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as Administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Administrator to assist in the financing of the Project through the provision of resources from the Interim Fund, and the Administrator has determined that such assistance would be in accordance with the provisions of the Interim Fund Resolution;

(C) the Project will be carried out by the State of Rajasthan (Rajasthan) with the assistance of Rajasthan Council of Primary Education (RCPE) and the Borrower and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Interim Fund Credit) available to RCPE, as set forth in this Agreement; and

WHEREAS the Administrator has agreed, on the basis, inter alia, of the foregoing, to extend the Interim Fund Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Administrator and Rajasthan (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The term "Association", wherever used in the General Conditions means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement;

(b) The terms "Development Credit Agreement", "Credit" and "Credit Account", wherever used in the General Conditions, are amended to read "Interim Fund Development Credit Agreement", "Interim Fund Credit" and "Interim Fund Credit Account", respectively; and

(c) In Sections 6.02 and 7.01 of the General Conditions, the term "Association" shall also mean the International Development Association acting in its own capacity.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BRC" means each Block Resource Center to be established in a Project District (as hereinafter defined) and responsible for, inter alia, providing professional training and support to CRCs (as hereinafter defined) and overseeing micro-planning activities under the Project;

(b) "children from socially disadvantaged groups" means children who have limited access to educational opportunities, including female, Scheduled Caste (as hereinafter defined), Scheduled Tribe (as hereinafter defined), other backward classes and working children and children with disabilities;

(c) "CRC" means each Cluster Resource Center to be established in a Project District and responsible for, inter alia, providing professional training and on-site support to teachers, mobilizing community support for schools and data collection through micro-planning activities under the Project;

(d) "DIET" means each District Institute for Education and Training in a Project District responsible for, inter alia, developing curricular material and training modules and training master trainers who will introduce teachers to the new pedagogy developed under the DPEP (as hereinafter defined);

(e) "DPEP" means the Borrower's District Primary Education Program;

(f) "DPEP Guidelines" means the statement adopted by the Borrower in April 1993, as amended from time to time, defining the DPEP;

(g) "DPO" means each District Project Office of RCPE (as hereinafter defined) in a Project District responsible for, inter alia, carrying out day-to-day Project implementation at the district level;

(h) "elementary education" means education provided in classes 1 through 8 in schools;

(i) "Eligible Categories" means categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(j) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(k) "Fiscal Year" or "FY" means the fiscal year of the Borrower, Rajasthan (as hereinafter defined) and RCPE, which begins on April 1 of a calendar year and ends on March 31 of the following calendar year;

(l) "primary education" means education provided in classes 1 through 5 in schools;

(m) "Project Agreement" means the agreement between the Administrator and Rajasthan of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(n) "Project District" means each of the following districts in Rajasthan: Alwar, Bhilwara, Sriganganagar, Jhalwar, Kota, Nagaur, Sikar, Sirahi, Tonk and Jhunjhunu;

(o) "Project Implementation Plan" means the Project Implementation Plan of the Borrower, Rajasthan and RCPE for the Project, dated April 1999;

(p) "Project Management Report" means each report prepared in accordance with Section 3.02 of the Project Agreement;

(q) "Rajasthan" means the State of Rajasthan, a State of the Borrower, or any successor thereto;

(r) "RCPE" means Rajasthan Council of Primary Education, a society established and registered under the Societies Registration Act, 1958, as applicable to Rajasthan and as amended to date;

(s) "RSTB" means the Rajasthan State Textbook Board responsible for, inter alia, printing and distribution of textbooks, workbooks and teacher guides;

(t) "Scheduled Castes" means the population groups specified as "Scheduled Castes" pursuant to Article 341 of the Constitution of India;

(u) "Scheduled Tribes" means the population groups specified as "Scheduled Tribes" pursuant to Article 342 of the Constitution of India;

(v) "School Management Committee" means each School Management Committee to be established for each school (including a self service school (Swayam Sevi Vidyalaya) and an alternative school) in the Project Districts and to perform functions of a VEC (as hereinafter defined) at the school level;

(w) "SIEMAT" means the State Institute for Educational Management and Training in Rajasthan responsible for, inter alia, training educational management personnel and providing technical support in educational planning and management;

(x) "SIERT" means the State Institute for Educational Research and Training in Rajasthan responsible for, inter alia, developing curricular material and training modules and training resource persons to train teachers;

(y) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(z) "SPO" means the State Project Office of RCPE responsible for, inter alia, supervising and coordinating Project implementation at the state level;

(aa) "VEC" means each Village Education Committee established for villages having at least one school (including a self service school (Swayam Sevi Vidyalaya) and an alternative school) in the Project Districts and responsible for, inter alia, micro-planning for school and resource mapping, mobilization of community support for schools, management of the community construction program, selection of para teachers

and school improvement and management; and

(bb) "WEC" means each Ward Education Committee established for wards in urban areas having at least one school (including a self service school (Swayam Sevi Vidyalaya) and an alternative school) in the Project Districts and responsible for, inter alia, micro-planning for school and resource mapping, mobilization of community support for schools, management of the community construction program, selection of para teachers and school improvement and management.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed to be a reference to each of Rajasthan and RCPE.

ARTICLE II

The Interim Fund Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Interim Fund Development Credit Agreement, an amount in various currencies equivalent to sixty-three million Special Drawing Rights (SDR 63,000,000).

Section 2.02. The amount of the Interim Fund Credit may be withdrawn from the Interim Fund Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Interim Fund Credit.

Section 2.03. The Closing Date shall be December 31, 2004, or such later date as the Administrator shall establish. The Administrator shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Interim Fund Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Interim Fund Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on November 1 and May 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semiannual installments payable on each November 1 and May 1 commencing November 1, 2009 and ending May 1, 2034. Each installment to and including the installment payable on May 1, 2019 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as

determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Administrator may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Administrator of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Interim Fund Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Interim Fund Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Administrator notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Administrator may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Administrator on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Administrator, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Administrator may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause Rajasthan and RCPE to perform in accordance with the provisions of the Project Agreement all the obligations of Rajasthan and RCPE therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Rajasthan and RCPE to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Interim Fund Credit available on a grant basis to RCPE under a memorandum of understanding to be entered into between the Borrower and RCPE satisfactory to the Administrator.

(c) Without prejudice to any other provision of this Agreement, the Borrower shall ensure that RCPE receives adequate funds on a six-monthly basis, in a timely manner, for anticipated expenditures under its approved annual work plans.

Section 3.02. Except as the Administrator shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Interim Fund Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower and the Administrator hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Rajasthan and RCPE pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall cause Rajasthan and RCPE to carry out the DPEP in Rajasthan in accordance with the DPEP Guidelines and shall not make any change to

the DPEP or the DPEP Guidelines, including in respect of its financial and administrative procedures, which would, in the reasonable opinion of the Administrator, materially and adversely affect the ability of Rajasthan or RCPE to carry out the Project or to perform any of their obligations under the Project Agreement.

Section 3.05. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with agreed indicators, the carrying out of the Project and the achievement of the objectives thereof;

(b) carry out with the Administrator, Rajasthan and RCPE a joint in-depth review of the Project on two occasions by December 31, 2001 and December 31, 2004, such review to include a status report: (i) in both reviews, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, and (ii) in the first review, setting forth the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof; and

(c) after the first review, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Administrator's views on the matter.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Interim Fund Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with sound financial management and accounting practices, records and separate accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Administrator has received the audit report for the Fiscal Year in which the last withdrawal from the Interim Fund Credit Account was made; and

(iii) enable the Administrator's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a)(i) of this Section and those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator;

(ii) furnish to the Administrator as soon as available, but in any case not later than six months after the end of each such Fiscal Year the report of such audit by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

(iii) furnish to the Administrator such other information concerning said records and accounts and the audit thereof, and concerning said auditors, as the Administrator may from time to time reasonably

request.

ARTICLE V

Remedies of the Association and the Administrator

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) Rajasthan shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that Rajasthan will be able to perform its obligations under the Project Agreement.

(c) Rajasthan shall have reduced the level of its budgetary expenditure for elementary education (net of Project expenditures) below the level, in real terms (adjusted to reflect a change in the Borrower's wholesale price index), of such expenditure in FY 1997-98.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Administrator to the Borrower.

ARTICLE VI

Effective Date; Termination; Designation of Administrator

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Interim Fund Development Credit Agreement within the meaning of Section 12.01(b) of the General Conditions, namely, that the Borrower and RCPE have entered into a memorandum of understanding satisfactory to the Administrator in accordance with Section 3.01(b) of this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Administrator, namely, that the Project Agreement has been duly authorized or ratified by Rajasthan, and is legally binding upon Rajasthan in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the Association in accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of a date to be notified by the Administrator to the Borrower.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Any Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretary to the Government of India
Department of Economic Affairs
Ministry of Finance
New Delhi, 110001
India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-3166175

For the Association and the Administrator:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in New Delhi, India, as of the day and year first above written.

INDIA

By /s/ V. Govindarajan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the interim trust fund established
with funds contributed by certain members of
International Development Association pursuant to
Resolution No. IDA 184 of the Board of Governors of
International Development Association, as amended

By /s/ Edwin R. Lim

Country Director, India

SCHEDULE 1

Withdrawal of the Proceeds of the Interim Fund Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Interim Fund Credit, the allocation of the amounts of the Interim Fund Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Amount of the Interim Fund Credit Allocated (Expressed in	% of Expenditures
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Category	SDR Equivalent)	to be Financed
(1) Civil works	13,000,000	90%
(2) Equipment, furniture, vehicles and books expenditures and expenditures procured	4,200,000	100% of foreign expenditures, 100% of local (ex-factory cost) 80% of local for other items locally
(3) Training, workshops, fellowships and consultants' services	19,100,000	100%
(4) Incremental operating and maintenance costs 1, 1,	21,600,000	80% until March 31, 2001; 60% from April 2001 until March 31, 2002; 55% from April 2002 until March 31, 2003; and 25% thereafter
(5) Unallocated	5,100,000	
TOTAL	63,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental operating and maintenance costs" means (i) the incremental expenses incurred on or after June 1, 1998 on account of Project implementation, management and monitoring, including office supplies, operation and maintenance of equipment, hiring of vehicles, maintenance of purchased vehicles and travel and supervision costs, but excluding salaries of officials of the Borrower's civil service; (ii) salaries paid in respect of posts created for the Project, including consulting or contractual services, on or after June 1, 1998; and (iii) expenses incurred by schools and teachers for school facility improvement and teaching and learning materials pursuant to paragraph 2.27 of the DPEP Guidelines.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 4,400,000, may be made in respect of Categories (1), (2), (3) and (4) set forth in the table in Part A.1 of this Schedule on account of payments made for expenditures before that date but after June 1, 1998.

4. The Administrator may require withdrawals from the Interim Fund Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts not exceeding \$300,000 equivalent each; (b) goods (except vehicles) under contracts not exceeding \$300,000 equivalent each; (c) vehicles under contracts not exceeding \$100,000 equivalent each; (d) services under contracts costing less than

\$100,000 equivalent each for employment of consulting firms and \$50,000 equivalent each for employment of individual consultants, respectively; (e) training, workshops and fellowships; and (f) incremental operating and maintenance costs; all under such terms and conditions as the Administrator shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in dollars a special deposit account in the Reserve Bank of India, on terms and conditions satisfactory to the Administrator.

2. After the Administrator has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Interim Fund Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Administrator shall have received (i) the first Project Management Report referred to in Section 3.02(b) of the Project Agreement and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Administrator of a Project Management Report pursuant to Section 3.02(b) of the Project Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Administrator shall reasonably request, furnish to the Administrator such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Administrator shall not be required to make further deposits into the Special Account:

(a) if the Administrator determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of the Project Agreement;

(b) if the Administrator determines at any time that all further withdrawals should be made by the Borrower directly from the Interim Fund Credit Account; or

(c) if the Borrower, Rajasthan or RCPE shall have failed to furnish to the Administrator within the period of time specified in Section 4.01(b)(ii) of this Agreement and Section 3.01(b)(ii) of the Project Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Sections in respect of the audit of (A) the records and accounts for the Special Account or (B) the records, accounts and financial statements reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports or statements of expenditure.

5. The Administrator shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Administrator shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Interim Fund Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Administrator shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Administrator determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Administrator, the Borrower shall, promptly upon notice from the Administrator, provide such additional evidence as the Administrator may request, or deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment. Unless the Administrator shall otherwise agree, no further

deposit by the Administrator into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Administrator determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) The Borrower may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Administrator made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Interim Fund Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equivalent to \$6,000,000 to be withdrawn from the Interim Fund Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Administrator shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,000,000 until the aggregate amount of withdrawals from the Interim Fund Credit Account, plus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 12,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Administrator a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Administrator requests for deposit into the Special Account at such intervals as the Administrator shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Administrator the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Administrator from the Interim Fund Credit Account under one or more of the Eligible Categories.

3. The Administrator shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Interim Fund Credit, minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Interim Fund Credit Account of the remaining unwithdrawn amount of the Interim Fund Credit shall follow such procedures as the Administrator shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made
On the Basis of Project Management Reports

1. Except as the Administrator may otherwise specify by notice to the Borrower, all withdrawals from the Interim Fund Credit Account shall be deposited by the Administrator into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Administrator from the Interim Fund Credit Account under one or more of the Eligible Categories.
2. Each application for withdrawal from the Interim Fund Credit Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Interim Fund Credit, the Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Administrator has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$12,500,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist Rajasthan and RCPE in building and strengthening Rajasthan's state, district and sub-district institutional capacity to ensure that more children, especially children from socially disadvantaged groups, complete a five-year primary education cycle of appropriate quality in the Project Districts.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Administrator may agree upon from time to time to achieve such objective:

Part A: Access to Primary Education

Expanding access to primary education in the Project Districts, particularly for children from socially disadvantaged groups, by constructing new schools and additional classrooms and repairing existing facilities to create approximately 600,000 new student places; positioning and appointing new para teachers in alternative and regular schools; and selectively establishing new and strengthening existing early childhood education centers to encourage learning, especially among female children from illiterate households.

Part B: Retention and Learning Achievement

Increasing the retention rate and improving the learning achievements in primary schools in the Project Districts by:

1. Mobilizing school and community organizations and carrying out awareness campaigns in support of education.
2. Establishing a School Management Committee for each school (including a self service school (Swayam Sevi Vidyalaya) and an alternative school) in the Project Districts.
3. Developing and implementing targeted interventions to enhance the delivery of Project benefits, particularly to children from socially disadvantaged groups, including (i) alternative schooling, (ii) provision of free teaching and learning materials, (iii) school facility and curriculum improvement and (iv) preparation of teaching aids by teachers.

4. Installing toilets and water facilities in schools.
5. Establishing BRCs and CRCs to operate in-service teacher training activities.
6. Providing continuous in-service teacher training for teachers already in service and para teachers, and supply of instructional materials for such training, including (i) training in the first year plus training in consecutive years for teachers already in service, (ii) foundational training and remedial training in the first year plus foundational training and remedial training in consecutive years for para teachers and (iii) establishment of BRCs and CRCs to provide professional training and on-site support to teachers.
7. Developing improved instructional materials by, inter alia: (i) field testing them prior to their adoption; (ii) improving the design, illustration, layout and durability of instructional materials; and (iii) providing professional training for instructional materials agency staff.
8. Supplying new and improved instructional materials to schools and children in the Project Districts in accordance with the DPEP Guidelines.
9. Carrying out periodic student learning assessments.
10. Formulating and implementing innovative approaches to improve primary education.

Part C: State and District Institutional Capacity

Improving state and Project District capacity to manage primary education by:

1. Establishing and strengthening state and Project District management structures to review and supervise the implementation of state and district investment plans and annual work plan and budget that are designed to enhance access to and improve the quality and efficiency of primary education.
2. Establishing and strengthening: (i) state and Project District resource institutions, such as SIERT, SIEMAT and RSTB at the state level and DIETs or equivalent institutions in all Project Districts; and (ii) resource groups at the state level and in all Project Districts, to provide technical support in Project implementation.
3. Strengthening the capacity for monitoring, research and evaluation, and carrying out related activities.
4. Developing training modules for micro-planning and VEC/WEC/School Management Committee training and training of master trainers.

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The Project is expected to be completed by June 30, 2004.

